

THE EVOLUTION OF PROVINCIAL FINANCE IN BRITISH INDIA

Continued...

CHAPTER VI BUDGET BY SHARED REVENUES Revision of 1896-97

This depression in Provincial Finance was alleviated to some extent at least in the revised settlements of 1896-7 by allowing a higher standard of expenditure and of revenue to the Provinces than was granted to them in 1892. The following table presents the old and the new standard of expenditure with the percentage difference between them :—

Provinces	Standard Net Expenditure		Increase per cent.
	1892	1897	
	Rs.	Rs.	
Central provinces	653,300	710,700	8.8
Lower Burma	1,064,600	1,206,100	13.3
Assam	467,600	564,900	20.8
Bengal	2,816,700	3,125,500	10.9
N.W.P.	2,215,400	2,428,700	9.6
Punjab	1,384,600	1,537,300	11.0
Madras	2,054,800	2,238,600	8.9
Bombay	2,049,500	2,544,100	5.6
Total	13,066,500	14,355,900	9.9

This new and enhanced standard of expenditure called for a revision of the shares of the Imperial and Provincial Governments in the joint revenues. But the revision had to be so devised that while it gave larger resources to the Provinces it obviated the necessity of making fixed assignments as much as possible; for the Government of India had learnt to its cost that fixed assignments on a large scale tended to make the resource side of the Provincial Finance rigid to such an uncomfortable degree that, if the variability of expenditure surpassed the expandability of the revenue incorporated in the Provincial Budgets, it was perforce obliged to distribute benefactions to ease what would otherwise be a difficult situation. Secondly, these fixed assignments also created a certain degree of inequality as between the backward and the more advanced Provinces. In the advanced Provinces the

fixed assignments formed a comparatively smaller part of their resources than they did in the case of the relatively backward Provinces, and, as larger expenditure could be undertaken by the Provinces only when their revenues expanded, the advanced Provinces, a larger part of whose resources were of an expanding nature, obtained a more favorable treatment than the relatively backward Provinces, a large part of whose resources were of a frozen character. This was rightly conceived by the Government of India as the reverse of what ought to have been, having regard to the fact that the needs of the backward Provinces were relatively more imperious than those of the advanced Provinces. To obviate this injustice the Government of India enhanced the shares of the backward provinces in the joint revenues by reducing *per contra* the fixed assignments made at the last revision. To the Punjab it gave .4 and to the Central Provinces .5 of the Land Revenue instead of .25 only. The share of Burma in the Land Revenue was raised to .66, and to make provision for the enhanced expenditure due to the addition of Upper Burma, and in lieu of the railway revenue withdrawn from it, Burma was allowed to appropriate .5 of the Excise instead of .25 only. The financial condition of the North-Western Provinces was not very happy. Its revenue had proved so very unprogressive that it advanced only 2 per cent. between 1892 and 1897. The treatment of the North-Western Provinces at the revision of 1892 was also a little unjust. The revision had left its revenues short by 5 lakhs of its standard expenditure, to be made up by reduction of its balances. To make amends for this the Government of India re-distributed the shares in the Land Revenue to the advantage of the North-Western Provinces. In addition to this the Government of India gave to that Province a grant of 4 lakhs for the year 1897-8, to enable it to establish district funds on a financially independent footing, a result accomplished long ago in every other Province in British India. To give an equitable treatment to the backward as well as to the advanced Provinces, it realised that an unequal treatment was the only proper way. It therefore adopted a less liberal attitude in revising the terms of the settlements with the more advanced Provinces of Bengal, Madras and Bombay. It allowed them a proportionately smaller increase of expenditure than the backward Provinces, as may be seen from the figures given above, and reduced slightly their shares in the revenues.

On the occasion of this revision the gain to the Imperial exchequer was practically negligible. In 1877 its total gain by retrenchment amounted to 40 lakhs a year; in 1882 the Imperial Government was so very prosperous that instead of contriving for a gain it surrendered to the Provinces 26 lakhs of the annual imperial revenue. But in 1887 it resumed 63 lakhs and in 1892, 46 lakhs. On this occasion however its gain was nil, for what it got from the advanced Provinces it gave to the backward ones.

Just and liberal as the terms of the settlement were, the abnormal circumstances which disturbed the entire period of the settlement made such heavy demands on the Provincial resources that, ample though they were, they fell far short of the requirements of the Provinces. The famine of 1896 and 1897 affected all the Provinces, although in unequal degree. In the North-Western Provinces and Oudh, the Central provinces, and Burma the effect was most severely felt. In Madras, Bengal and the Punjab it was serious, and in Burma it was slight. On the other hand, the famine of 1899 and 1900 affected Bombay and the Central Provinces most severely, the Punjab very seriously and the rest of the Provinces slightly. And Assam, though unaffected by either of the two famines, suffered very severely from the great earthquake of June, 1897. Besides famine the plague was also making its ravages and taking its toll. As a result of these unforeseen calamities all the Provinces were forced to incur extraordinary expenditure on preventive measures, for which no provision was made in the standard of revenue fixed for the period of settlement. The expenditure on these unforeseen calamities being of an extraordinary nature was treated as imperial and defrayed from the Imperial exchequer, but even this much succour did not prove equal to the necessity and the Government of India was obliged to make special grants-in-aid of the Provincial Revenues as shown on page 168.

Thus the Government of India was not only obliged to pay for the cost of the famine, but to grant funds to restore equilibrium and to provide for useful public services held up or curtailed by the Provincial Governments owing to the extraordinary circumstances of the time. All this aid from the Imperial Government was made available because of the very prosperous condition of the Imperial finances throughout this period. While it is better that governments in general should always be in penury, the surpluses in the Imperial Finance proved a timely resource, the utility of which was doubled by the commendable way in which they were spent. Besides giving them grants for useful public works the superfluous funds of the Imperial Government were utilised in carrying out the following additional measures to the relief of the Provinces:

- (1) Remission of Imperial Land Revenue Rs. 50,94,000 and reimbursement to the Provinces for their share remitted Rs. 59,81,000; in all Rs. 1,10,75,000.
- (1) The abolition of the pandhari tax in the Central Provinces, costing Rs. 7,000 a year.
- (3) The reduction of the patwari rate in Ajmere, from 10 per cent. on land revenue to 6 1/4 per cent.; the amount of the local revenue remitted was—Rs. 13,000, but the contribution paid to the local fund was Rs. 23,000 Taking into account these various contributions in aid of

Provincial Revenues, the following table is presented as indicative of the condition of the Provincial Finances during this period of settlement :—

Provinces	Provincial Surpluses or Deficits						
	1897-98	1898-99	1899-1900	1900-01	1901-02	1902-03	1903-04
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
C.P.	(a)	12,286	—1,22,883	(a)	22,42,408	—705	-7,40,742
Burma	1,69,435	4,11,494	26,14,312	15,16,220	7,55,285		
Assam	—45,580	86,742	—8,15,488	—86,829	1,47,353	10,08,393	11,40,517
Bengal	-3,03,250	2,19,449	7,01,899	4,43,224	6,44,170	6,23,640	87,23,496
N.W.P.	(a)	3,28,562	7,53,815	8,04,789	---	---	---
Punjab	—2,278	1,15,379	-16,53,794	(a)	14,96,350	10,28,770	6,74,880
Madras	-1,57,707	1,60,706	-17,58,029	-3,21,013	40,41,297	-15,810	52,40,809
Bombay	-1,29,663	1,00,427	-15,04,271	(a)	58,23,235	-24,23,235	-1,23,000
U.P.of Agra and Oudh	---	---	---	---	-9,63,788	-64,372	37,11,281

(a) No closing balance left because of Budget equilibrium.

Compiled from the Annual Finance and Revenue Accounts of the Government of India. .

IMPERIAL SPECIAL GRANTS-IN-AID TO PROVINCES*

Year	India	C.P.	Assam	Bengal	N.W.P. and Oudh	Punjab	Madras	Bombay	Burma	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
1897-98		7,72,000	8,00,000		10,27,000			12,18,000		
1898-99		5,00,000	18,00,000	17,00,000	10,00,000	5,00,000	16,96,000	48,75,000		
1899-1900		19,32,000				95,000	3,49,000	34,37,000		
1900-01		34,15,000				5,98,000		64,79,000		
1901-02		26,89,000	2,00,000			12,40,000	32,14,000	91,00,000	4,00,000	
	{	6,50,000				4,00,000	10,00,000	19,50,000		
1902-03 ...	{1	2,00,000	1,00,000	10,00,000	5,00,000	4,00,000	8,00,000	6,00,000		
	{2	A 70,000	2,00,000	2,80,000	4,50,000	5,00,000	5,50,000	5,50,000		
	{3	B 1,00,000	2,00,000	1,50,000	3,50,000	3,00,000	3,50,000	3,50,000		
1903-04	{1		2,00,000	1,00,000	10,00,000	5,00,000	4,00,000	8,00,000	6,00,000	4,00,000
	{2		5,00,000	5,00,000	2,00,000	3,00,000	10,00,000	5,00,000	10,00,000	
	{3		1,90,000	1,11,000		2,26,000	2,76,000	3,50,000	3,50,000	

1. For education (recurring)

2. For use Public Works.

3. For improving district and Other establishments.

A. Allotment for Public Works in Baluchistan, Rajputana and Central India.

B. Amount taken the " India " estimates for subsequent distribution to the provinces.

.. * Complied from the annual Financial Statements of the Government of India

Revision of 1902-03

Settlements made with the Provinces in 1897 should have ended in the ordinary course of time in 1902-3. The central operation in the periodic revision of the settlements was to arrive at the standard provincial expenditure for the ensuing quinquennium and as a rough and ready method of decision the average expenditure during the expiring quinquennium was taken as a standard expenditure for the opening quinquennium. There is nothing grossly erroneous in such a procedure, provided the preceding and succeeding quinquenniums are equally normal with respect to the course of their events. But as we have seen, the events of the past quinquennium were entirely abnormal and could not have been made the basis of any calculations worthy of trust. To be on the safe side the Government of India thought it desirable to await the return of normal times before undertaking wholesale revisions of provincial settlements. The occasion of 1902-3 for revision was therefore postponed save in the case of Burma. For, the last settlement had become unduly favourable to that Province in comparison with the other Provinces, notwithstanding the very nice and equitable calculations on which the settlements of 1896-7 were based. The extent to which the revenues had exceeded its expenditure is indicated in the following table:—

	Estimated		
	Standard for	Estimates	
Burma	the Settlement	for 1902-03	Difference
	of 1897-98 to		
	1901-02		
	Rs.	Rs.	Rs.
Revenues	2,93,81,000	3,73,86,000	80,05,000
Expenditure	2,93,81,000	3,31,86,000	38,05,000
Surplus		42,00,000	

The continuance of such an outcome was deemed unfair to the Imperial and unjust to the other Provincial Governments. The financial settlement of the Province of Burma was accordingly revised notwithstanding the established canon of simultaneous revision, when the occasion presented itself in 1902-3. The revision resulted in the resumption by the Government of India of this surplus by readjusting the shares of the Province in the joint revenues. The

share in the Land Revenue was reduced from two- thirds to one-half and that in the Excise from one-half to one-third, and a few minor heads were added to the already provincialised heads of expenditure. By these changes the standard revenue and expenditure of Burma for the new settlement of 1903 to 1906 assumed the following totals :—

Adjusting	Total	Total	Assignment
	Revenues	Expenditure	
Rs.	Rs.	Rs.	Rs.
2,78,31,000	53,02,000	3,31,33,000	3,31,33,000

Another province whose settlement was revised was the Punjab; but the reason of it was different. The territory covered by the North-Western Provinces was divided into the North-Western Frontier Provinces and the United Provinces of Agra and Oudh, usually styled U.P. Along with this some of the districts of the Punjab were separated from it and joined to the newly created North-Western Frontier Province. This caused a readjustment of the provincial revenues and expenditure, but not any wholesale revision of the settlement. The changes were confined to the necessary alterations in the adjusting assignment.

Quasi-Permanent Revision 1904-05

With the exceptions noted above the settlements of 1897 were extended up to the end of the year 1904. The primary cause of the postponement of the revision as explained above was the abnormality of the conditions prevailing in the year 1901-2. But there was also another reason why the Government of India was so very anxious for the return of normal conditions before taking any steps towards revision. It was about this time that the Government of India contemplated to introduce permanency in Provincial Finance. The five-year budget system which in 1881 replaced the annual budget system as the basis of Provincial Finance, though a marked improvement in the direction of continuity and stability, was not deemed to be quite sufficient. Under it the Provincial Governments were left free to enjoy the fruits of their economy in expenditure and of the successful nursing of their resources for the period of five years. Beneficial as far as it went, this time-bar was found to exercise a most pernicious influence on Provincial Finance. Under the quinquennial budget system it so happened that the provincial Governments as the result of feeling their way under the new conditions were parsimonious in the first few years lest their expenditure should prove too much for their revenues, and extravagant in the last few years lest their expenditure should shrink below the standard and leave large margins to be cancelled by the

Government of India on revision of their settlements. No Local Government could be expected to put into execution any carefully matured and well-thought-out scheme of improvement within the short span of a quinquennium. All that it could do was to spend the first two or three years in working out a scheme and utilise the last two or three years in rushing it through, as was done by most of the Provinces. This tendency to undertake such schemes, the only merit of which was that they could be carried through before the revision, and mainly in order to reach the standard expenditure, was a direct consequence of the quinquennial budget system. This is by no means an a priori conclusion. A glance at the annual surplus of the provinces will indicate how they tend to rise in the beginning of the quinquennium and fall at the end of it. To obviate these evils of parsimony and extravagance the only remedy was to do away with the principle of quinquennial revision, and this the Government of India courageously undertook to effect. The right to revise was a much cherished right, and the Government of India had not failed to exercise it in the teeth of ail opposition from the Provinces. It was abandoned only because its exercise was deemed to be mischievous.

Taking the year 1903-4 as the normal one, the Government of India decided to revise the provincial settlements of all the different Provinces. The idea was to adjust the revenues between the Imperial and the Provincial Governments on the basis of the total expenditure they respectively controlled. It was found that the aggregate provincial expenditure represented less than one-fourth of the whole, while the Imperial expenditure, which included Army and Home Charges, aggregated in excess of three-fourths. These proportions of expenditure were taken as the basis of the division of revenue between the Imperial and the Provincial, and the following standard shares of revenue and expenditure under the joint heads were agreed upon :—

	Imperial	Provincial
Bengal, U.P., Bombay, Madras	3/4	1/4
Punjab, Burma	5/8	3/8
C.P., Assam	1/2	1/2

The reasons for adopting different standard rates of division in the case of the Punjab, Burma, C.P. and Assam was to give the backward provinces opportunities of development in the same proportion as lay within the reach of the advanced provinces.

Of the settlements made in 1904-5 the Government of India declared that those made with the Provinces of Bengal, Madras, Assam and U.P. were to be permanent and not subject to revision in future, except when it was found

that the financial results were unfair to a Province or to others by comparison, or to the Government of India when it was confronted by an extraordinary calamity. Owing to this proviso their settlements were termed quasi-permanent. To obviate the recrudescence of unfairness during the currency of the settlements the Government of India felt it necessary to enter certain modifications in the standard ratio of division of the joint-heads of revenue and expenditure with regard to the Provinces brought under the quasi-permanent settlement. They were as follows :—

Revenue	Provincial Share			Expenditure	Provincial Share		
	Bengal	Madras	U.P.		Bengal	Madras	U.P.
Excise Stamps	7/16	---	---	Excise	7/16	---	---
Registration	1/2 Wholly	1/2,	1/2	Stamps Registration	1/2	1/2	1/2
Irrigation	---	Wholly	---	Land Revenue	Wholly	---	---
		---	Wholly		Wholly	Wholly	Wholly

Compiled from the Financial Statement of the Government of India for 1904-5, p. 67.

Besides these modifications the Government of India gave them the following grants :—

Bengal	Madras	
1. Addition of 4 lakhs to The assessment to Improve the pay of Ministerial establishments.	1. Grant of 20 lakhs for Survey and settlements	1. Irrigation
2. Further addition not Exceeding 2 1/2 lakhs for For strengthening the staff of Deputy Collector.	2. Grant of Rs. 75,000 a year recurring for relief of certain local bodies.	2. Grant
	3. Rs. 50,000 a year for agricultural experiment.	3. Hal
	4. Undertaking to bear charges for reorganising district administration	3. Hal District

Compiled from the same Financial Statement of the Government of India, p. 67.

The standard revenues and expenditure of the quasi-permanently settled provinces, after taking into consideration the alterations in their respective shares in the joint revenues, were as follows:—

STANDARD REVENUES AND EXPENDITURE (in thousands of rupees).

		Revenue

Province	Expenditure			
		Revenues	Assignments	Total
Madras	3,50,48	2,90,82	5,966	3,50,48
Bengal	4,98,87	4,49,84	4,903	4,98,87
U.P.	3,66,64	3,62,64	400	3,66,64
Assam	72,07	60,07	1,200	72,07

The gain to the Imperial treasury on the revenue side brought about by the revision of the quasi-permanently settled Provinces was Rs. 2,06,000. But the revision also over-burdened the Imperial Government with a total charge of Rs. 36,000 hitherto borne by the Provincial Budget. Thus its net gain was only Rs. 1,70,000 a year on the normal.

As in the beginning of the scheme of Provincial Budgets, the government of India thought it advisable to make to the quasi-permanently settled Provinces the following initial grants so as to give them a fair start :—

To Bengal	Rs. 50 lakhs. (Exclusive of 50 lakhs for Calcutta University.)
To Madras	Rs. 50 lakhs. (Inclusive of 20 lakhs for survey settlement
To U.P.	Rs. 30 lakhs. (Exclusive of 1 1/4 lakhs to compensate for expenditure on the purchase of encumbered estates.)
To Assam,	Rs. 20 lakhs.

Of the remaining Provinces, Bombay and the Punjab were the next to obtain quasi-permanent settlements with effect from 1905-6.

In recasting their settlements the Government of India departed a little from the standard rate of division as applied to the Provinces quasi-permanently settled in 1904-5. With certain exceptions mentioned below the joint heads of revenue and expenditure were divided half and half, including Irrigation in Bombay, instead of three-fourths and one-fourth between the Imperial and the Provincial. The exceptions to this rule were the following :—

Revenue	Provincial Share		Expenditure	Provincial Share	
	Bombay	Punjab		Bombay	Punjab
Land Revenue	Guaranteed Up to 189 1/4, Lakhs	3/8	Land Revenue	Wholly	Wholly
Registration	Wholly	Wholly			
Irrigation	1/2	3/5 Guaranteed up to 28 lakhs			

Compiled from the Financial Statement of the Government of India

The standard revenue and expenditure of these two provinces under the quasi-permanent settlement was as follows :—

Province	Expenditure	Revenue		
		Revenues	Fixed Assignments	Total
	Rs.	Rs.	Rs.	Rs.
Bombay	4,91,75,000	4,48,98,000	42,77,000	4,91,75,000
Punjab	2,49,50,000	2,46,50,000	3,00,000	2,49,50,000

The raising of the shares and the fixing of assignments on a liberal scale with respect to these famine and plague-stricken Provinces left the Imperial Government a loser on the transaction. On the basis of the new standard of revenues the Government of India lost Rs. 5,95,000 on the two Provinces together. The corresponding increase in the provincial shares of the joint heads of expenditure, however, lessened the Imperial expenditure by Rs. 2,21,000 a year. On the whole, therefore, the Imperial Government sacrificed a normal gain of Rs. 3,74,000 to give permanency and stability to the finances of these two Provinces. This was over and above the initial grant of Rs. 50,00,000 to each of them in order to enable them to set their sails in smooth waters.

A year after, the settlement of the Central Provinces was made quasi-permanent with effect from April 1, 1906. The shares in the joint heads of revenue and expenditure were raised, as they were in the case of Bombay and the Punjab, and particularly because of the addition of Berar, which was hitherto administered directly by the Imperial Government, from three-fourths and one-fourth to one-half between the Imperial and the Provincial, the share in the land revenue being guaranteed up to 82 1/2 lakhs. The only exception to this rule of even division was the Registration revenue, which was made wholly provincial. To balance the revenue with the expenditure an assignment of Rs. 27,07,007 a year was fixed and an initial grant of Rs. 30,00,000 was given for a fair start.

Along with the settlement of the Central Provinces it became necessary to reorganise the budgets of the quasi-permanently settled Provinces of Bengal and Assam owing to certain administrative changes. The two Provinces were reconstituted into (1) Bengal and (2) Eastern Bengal and Assam. In the revision of its financial settlement the new Province of Bengal was accorded the same proportionate share in the joint revenues as were granted to Bombay and the Punjab—namely, a share of a half in all the joint heads. Registration and that portion of the Land Revenue which was derived from Government Estates under the direct management of the Imperial

Government were, however, made wholly provincial. In lieu of this favoured treatment the fixed assignment of the Province was reduced from 49.03 lakhs to 5.72 lakhs.

In the new Province of Eastern Bengal and Assam the principle of even distribution was applied to all joint heads of revenue and expenditure with the exception of Registration, which was made wholly provincial. This enhancement of shares so greatly augmented the resource side of the Provincial Budget that the balance had to be restored by a negative operation of a fixed adjusting assignment from the Provincial to the Imperial funds. The following figures show the standard expenditure and the standard revenue for the three provinces brought under the quasi-permanent settlements:—

	Rs.	Revenue		
		Revenues	Assignments	Total
		Rs.	Rs.	Rs.
C.P.	1,76,43,000	1,49,36,000	27,07,000	1,76,43,000
Eastern Bengal and Assam	2,12,19,000	2,18,42,000	6,23,000	2,12,19,000
Bengal	4,72,73,000	4,67,01,000	5,72,000	4,72,73,000

Some modifications were later on introduced in the settlement of the Province, so that a positive adjustment had to be made by an assignment from the Imperial to the Provincial of Rs. 60,000 a year.

The only Province which was outside the pale of the quasi permanent system was Burma. The last quinquennial settlement made with it in 1902-3 having expired, the Government of India decided to bring it in uniformity with the other Provinces by giving it a quasi-permanent settlement from April 1, 1907. In a spirit of perfect impartiality it was also given an even share in the principal joint heads of revenue and expenditure, salt being imperialised as in other provinces. It was given an adjusting assignment of Rs. 90,68,000 a year to cover the deficits in its standard expenditure and an initial grant of Rs. 50,00,000.

By the year 1907 all the Provinces were brought within the pale of the quasi-permanent settlement, and we would have expected the scheme of Provincial Finance to run its course undisturbed by any further changes. But it so turned out, as must have been noticed, that the quasi-permanent settlements made with Madras and U.P. in 1904 had become a little unfair to them in comparison with the terms offered to the Provinces subsequently dealt with. To remove this ground of injustice, which was one of those recognised for subjecting the quasi-permanent settlements to revision, the shares of the two Provinces in the joint heads were raised with effect from April 1, 1907, to one-half, with the following exceptions :—

Madras	United Provinces
Revenue	Revenue
I. Registration. Wholly Provincial.	I. Land Revenue, 3/8 Provincial.
1. Land revenue. Minimum receipt of 308 lakhs guaranteed if the provincial share fell below that amount.	Minimum of 240 lakhs guaranteed.
II. Expenditure	II. Irrigation. Minimum receipt of 60 lakhs from major irrigation works guaranteed, if the provincial share fell below that amount.
1. Registration. Wholly provincial.	
2. Land Revenue. Wholly provincial.	

The fixed assignments to cover the difference between the excess of standard expenditure over standard revenue were :—

To Madras - Rs. 22,57,000

To U.P. - Rs. 13,89,000

Thus the scheme of Provincial Finance in British India had advanced by gradual but distinct steps of assignment budgets, assigned revenue budgets and shared revenue budgets to a stage the terms of which were regarded by the parties concerned as sufficiently final. How far their expectations were fulfilled may be judged from the annual surpluses and deficits in Provincial Finance and from the range in their deviations as indicated in the following table:—

PROVINCIAL SURPLUSES AND DEFICITS

Province	1904-05	1905-06	1906-07	1907-08	1908-09	1909-10	1910-11	1911-12
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
C.P.*	-701000	3235000	1750607	-930617	-3097865	721755	280556	1214573
Burma	-1591796	-2613890	1890516	-129590	-2060678	2515371	1900297	-1260040
Assam**	-269316	-3720027	-200140	-2596682	-2357687	549270	5539698	5218802
Bengal	-1252818	-1952312	-1877455	-2256994	-1330371	3274065	3960612	8296233
U.P.	-869099	-2879192	795600	-3587066	1007260	2045221	3635904	144240
Punjab	4794387	-2796052	-661214	-2408818	-1576981	1300559	4199121	3398055
Madras	-1402344	220328	1217745	-44992	2025109	1266326	2316383	2938502
Bombay	4396000	-42892	1752202	-308925	-2618926	7137996	7585460	-541411

*Includes Berar since 1906.

**Eastern Bengal and Assam since 1906.

Compiled from the Annual Finance and Revenue Accounts of the Government of India.

In judging of these results account must also be taken of the various benefactions made by the Government of India to the Provinces by way of

grants-in-aid during the same period. These grants were as follows :—

IMPERIAL GRANTS-IN-AID TO THE PROVINCES

Province	1904-05	1905-06	1906-07	1907-08	1908-09	1909-10	1910-11	1911-12
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
C.P.*	2853710	6957793	110500	2752010	2903668	3588270	3465500	2080845
Burma	567500	1845000	7219000	682000	215253	1820952	4232742	3605164
Assam		3362916	327294	280030	2358947	4464435	4608965	6100732
Bengal	24794	4806984	475548	1362634	4157393	5753692	6137013	11131276
U.P.	136600	4036307	7641697	9879667	8770345	1624329	4513729	3136107
Punjab	7526436	2467579	4209531	5541529	6037990	5839014	9592844	3101681
Madras	700946	4430714	9980400	9473304	704885	612941	3691426	5008889
Bombay	10312928	3427325	4024512	4574284	5726162	5797603	12009360	4935159
Total ...	22122914	31334618	34982982	34543458	30874643	29502286	15475360	39099853

*Includes bearer since 1906.

Compiled from the Annual Finance and Revenue Accounts of the Government of India.

But in taking account of these benefactions it must not be supposed that, barring a solitary case or two, they were necessary in order to preserve the solvency of Provincial finance as it was defined by the terms of the settlement made with the different provinces. Far from being insufficient, the revenues settled upon the different Provinces proved quite ample for their needs if we take the last years, and they are the most typical years, into consideration.

Permanent Settlements of 1912

Soon after the series of quasi-permanent settlements were concluded with the different provinces, the subject of Provincial and Central Finance in British India among others of a like nature was investigated by the Royal Commission on Decentralisation. In its Report issued in 1909 the existing method of allocating revenue and charges between the Imperial and Provincial Governments was upheld in principle. Of the many adverse criticisms passed by witnesses who appeared before the Commission only two were regarded by it as worthy of consideration: (1) The adjusting assignment and (2) Grants-in-aid, or doles as they were cynically termed. It was urged, and with some truth, that the adjusting assignments impaired the elasticity in provincial revenues by reason of the fact that while charges grew, that part of the provincial resource, which was made up by assignments, and in some cases it formed quite an appreciable part, remained unaltered. Secondly, it was argued that doles were demoralising and that it would be better to replace them by shares in growing revenue. The Commission seems

to have been completely impressed by the disadvantages of large adjusting assignments, but it demurred, and rightly so, to the criticisms with regard to the doles. Every one extolled the benefits of decentralisation to the Provinces, but few realised the anxieties that it involved to the Government of India. It must have been clear that by the process of decentralisation the Government of India had given the Provinces more or less complete freedom in distributing their funds in any way they liked upon the services delegated to their management, while it had remained responsible for their efficient upkeep by the provisions of the law which governed its constitution. But the freedom which the provinces had obtained in carrying on the financial management of the services made over to their particular control, involved the possibility of their fostering certain services deemed to be of immediate utility to the people of the Provinces, and neglecting others the utility of which, though remote to the Provinces, was nevertheless real to the country as a whole. Neglect of nationally important services such as Education, Sanitation, Police, was especially to be avoided during periods of plague and famine. But the Government of India could not enforce distribution of provincial funds on such services; for one of the vital conditions of Provincial Finance was freedom of appropriation on provincialised services, which were not distinguished into obligatory and optional as is the case in the continental system of local finance.

The Government of India was indeed not as powerless as the Central Government in England which, as is well known, cannot rectify cases of neglect by local authorities without resort to a writ of *mandamus*. But the way to bring a recalcitrant province to order, if easier, was not pleasant. For, the only way to mend such a situation was to end it by suspending the operation of Provincial finance. Rather than resort to such a grave measure the Government of India happily hit upon grants-in-aid of particular services as a powerful and well-tried corrective to the negligence of the Province, and require it to maintain a "national minimum" in those services which it regarded as onerous rather than beneficial. Convinced of the virtue of grants-in-aid as a brake on decentralisation degenerating into disintegration, the Commission only recommended that measures be taken to give Provincial Finance the greatest elasticity possible by diminishing the assignments to the smallest magnitude possible.

Following the recommendations of the Commission the Government of India decided to make certain modifications in the existing allocation of revenue and charges and to make the quasipermanent settlements permanent settlements from the year 1912. The permanent settlements did not differ from the quasipermanent settlements which they superseded in any material point so far as the principle of allocation was concerned. The only point of

difference between them in that respect was a partial replacement of the fixed adjusting assignments by increased shares in the following joint heads of revenue and expenditure :—

Modifications in Shares

Revenues		Expenditure	
Heads of Account	Provincial Share	Heads of Account	Provincial Share
1. Land Revenue including the portion credited to Irrigation	5/8 to Burma 1/2 Punjab	1. Land Revenue	5/8 Burma 1/2 Punjab
2. Excise	Wholly in Eastern Bengal and Assam, Bombay. In C.P Bengal and U.P.3/4	2. Excise	Same as in revenue Column.
Assessed Taxes			
3. (P.W.D.)	1/2		
4. Forest	Wholly.	4. Forest	Wholly
5. Major Irrigation works (excluding portion of Land Revenue credited to it).	1/2 in Punjab, minimum of 4 lakhs guaranteed.	5. Major Irrigation	1/2
6. Major and Minor Irrigation.	1/2 in Bengal	6. Major and Minor Irrigation.	1/2 in Bengal

The effect of these modifications in the shares in the joint heads of revenue and expenditure was to reduce the adjusting assignments to the following figures :—

Province	Assignments in Lakhs of Rupees from Imperial to Provincial	From Provincial to Imperial
Central Provinces...	21.40	
Burma...	13.12	
Eastern Bengal and Assam...	13.55	
Bengal...		18.40
U.P.		19.26
Punjab...	6.77	
Madras...		21.43
Bombay...		9.38

During the permanent as during the quinquennial and quasi-permanent settlements the grants-in-aid of specific services, unobjected to as they were by the Decentralisation Commission, were continued to be given to the different Provinces throughout the period although, as may be seen from the following figures, in a continually diminishing magnitude :—

SPECIAL GRANTS-IN-AID (in rupees)

Provinces	1912-13	1913-14	1914-15	1915-16	1916-17	1917-18	1918-19
C.P.	4790480	2643264	5138256	4407802	3795784	3817540	2726008
Burma	8536948	2263939	38497G3	3869472	216979	2478482	2490
Assam	5530991	3283011	7533878	6577619	2497661	1922252	2444730
Bengal	15401885	6480800	7594894	7186436	6538732	7074773	9669717
Bihar & Orissa	6379420	4761028	3526567	4278654	3262214	4235205	4179425
U.P.	11470603	8542279	3842624	3229924	2453969	2706164	3590530
Punjab	6700924	2424404	3988117	5908923	4925830	4862616	5563665
Madras	12277591	5066343	1697803	1220785	1099165	1483708	1577446
Bombay	11192723	3996729	1468837	1200254	1065964	1154725	2479510
Total	82283565	39461797	38640739	37880069	25856498	24778501	35453521

Compiled from the Annual Finance and Revenue Accounts of the Government of India.

It was natural that the results of the permanent settlement should have been more anxiously awaited for with great interest by the Provinces, for the permanent settlement had the potentiality of a permanent gain or a permanent loss. That their anxiety on that score could not but have been completely allayed is amply supported by the repeated surpluses that meet the eye as it passes over the following figures of annual additions to and deductions from their balances during the period of its currency :—

PROVINCIAL SURPLUSES OR DEFICITS (in rupees)

Provinces	1912-13	1913-14	1914-15	1915-16	1916-17	1917-18	1918-19
C.P.	5085246	1881245	-3544416	-13836	4235704	4870517	920121
Burma	8874174	914026	-3729808	1896621	9427702	12067708	4873587
Assam	3610494	-2217691	-4550789	658812	6044904	2800634	435872
Bengal	14705270	480842	-3967607	1028156	3708838	5280082	732237
Bihar & Orissa	7022199	-920062	-1870264	1133562	5919907	7176786	3643564
U.P.	9588749	50704	-4611080	-973090	3427808	-2268311	3686945
Punjab	7411069	—692512	-3730641	-1133541	500995	-695216	1185930
Madras	4330275	-5298411	-1207754	318508	2571241	1042303	-972354
Bombay	7083281	1558566	-2639924	-951099	122434	611321	1681066

Compiled from the Annual Finance and Revenue Accounts of the Government of India.

While the condition of Provincial Finance was thus undoubtedly prosperous, the erratic movements in the provincial balances do not quite bear out the hope of orderly progress that was entertained of the permanent settlement. It should be noted, however, that the period during which the permanent settlement was current was not wholly a normal period. Part of the permanent settlement was no doubt a peace period, but it was not even as long as a quinquennium, and it should not on that account detract from the merits of a permanent settlement if it disclosed the faults of the quinquennial settlements. Most of the period covered by the permanent settlement was, however, a period of the Great War, the abnormal events of which could not have had any but disturbing effects on Provincial Finance.

Whether the permanent settlements would have been adequate for the purpose in view if sufficient length of time had been allowed for conditions to have become settled it is not given to us to say. For, from April 1, 1921, provincial Finance in British India entered on an entirely new phase. That phase of it will be dealt with in another part. Here the study of the growth of Provincial Finance as it developed stage by stage under the old phase comes to an end. But this study will not be complete until we deal with the mechanism which inter-related the finances of the Central and Provincial Governments under the old phase. But before we proceed to do so it might be of interest as well as of value that the study of the final stage in the development of Provincial Finance were to close with the following retrospect of provincial revenue and expenditure which shows, as nothing else can, the small beginnings, the large strides and the vast proportions that Provincial Finance had reached during the half century over which it had been allowed to run its course.

GROWTH OF PROVINCIAL FINANCE

Provinces	Provincial Revenues As a percentage of the total						Provincial Expenditure As a percentage of the total					
	Revenues of India						Expenditure of India					
	1871-2	1882-3	1892-3	1904-5	1912-3	1918-9	1871-2	1882-3	1892-3	1904-5	1912-3	1918-9
C.P.655	1.055	.863	.905	2.52	1.715	.652	1.008	.87	.984	2.19	1.685
Burma572	1.66	2.256	3.023	4.73	3.57	.592	1.914	2.16	3.31	4.14	3.15
Bengal ...	2.8	5.9	4.72	4.12	5.56	4.00	2.7	6.68	4.52	4.26	4.56	3.84
N.W.P.andOudh	1.99	4.16	3.6				2.04	4.4	3.32			
Punjab ...	1.66	1.59	1.888	2.08	3.96	3.11	1.55	2.165	2.03	1.83	3.47	2.81
Madras ...	1.595	3.32	3.3	2.88	6.27	4.75	1.61	3.24	3.4	3.09	6.1	4.53
Bombay...	1.8	4.9	4.49	4.05	6.17	5.45	1.836	5.08	4.4	3.77	5.7	5.00
Assam61	.738	.597	1.38	1.00		.505	.617	.618	1.13	.857

U.P. ...				2.99	5.5	4.15				3.01	4.87	3.94
Bihar and Orissa					2.6	1.9					2.11	1.775
Total Provincial	11.11	22.8	21.75	20.4	38.6	29.2	10.8	25.00	21.3	20.8	34.3	27.6

Compiled from the Annual Finance and Revenue Accounts of the Government of India.

[Contents](#)

[Part III](#)